This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 VIENNA 003025

SIPDIS

E.O. 12958: N/A

TAGS: PREL ECON EFIN ECIN ELAB AU EUN
SUBJECT: ALPBACH ECONOMIC FORUM - EUROPE NEEDS MORE REFORMS, LESS ENLARGEMENT, AND A REVITALIZED GERMAN ECONOMY

Summary

¶1. The August 18-September 3 European Forum Alpbach's Reform Symposium focused on the flagging Lisbon Agenda, moribund EU growth rates, labor market inflexibility, and Germany's bleak economic outlook. Politicians, academics, and subject experts called for more democracy and closer political and economic policy coordination within the EU. Many speakers cited the Lisbon Agenda's failure as an example of the EU's political weakness. ha There was a strong consensus that, without higher growth rates and continued structural reforms, the EU would not be able to maintain its generous social welfare system. On enlargement, most argued that enlargement beyond Romania and Bulgaria was not an option. Many participants touted the "Scandinavian model" as the best blueprint for enhanced labor market and social reforms throughout the EU. Germany's economic problems are likely to continue for several more years, with its anemic growth prospects affecting the entire Euro area. There was near-unanimous criticism of the European Central Bank's tight monetary policy. End Summary.

The EU - Call for Reform, Democracy and Common Policies

--- ----------

¶2. A common message was that the EU needs more democracy, closer political coordination, common fiscal and economic policies, and renewed "bonding" with its citizens after the constitution ratification debacle. Anna Diamantopoulou, Greek MP and former EU Commissioner, stated that the EU would only have a future if it has a political future. According to former EU Commissioner Mario Monti, the EU is severely handicapped, especially vis--vis the U.S., because it speaks and acts "as one" only with regard to trade, competition and monetary policies. Fritz Verzetnitsch, President of the Austrian Trade Union Federation, supported Monti's view that the EU should forge a more united position towards the outside world.

The Lisbon Agenda - Pessimistic Outlook

¶3. The overwhelming majority of speakers maintained that

the Lisbon Agenda had failed because of the EU's political impotence. Most pointed to the October 2005 Lisbon revision and the Austrian Presidency as the last chances to salvage anything from the process. The Lisbon Agenda, while elaborating perfectly laudable economic targets, lacked implementation strategies and interim goals, but most of all, political commitment. There was consensus that such ambitious projects need closer central coordination and would be difficult to carry through without a political union.

Low Growth Threatens EU Social System

¶4. Daniel Thorniley, Senior Vice President of the Economist Group, presented a gloomy medium-term economic outlook for the EU-15, with projected average growth of only 1.5-1.8% over the next five or more years. Without higher growth rates, there was general agreement that the EU could not maintain its high environmental and social standards, nor provide much-needed investment in education, research, infrastructure, administrative reform and innovation. Several economists criticized the lack of EU-wide, growth-oriented economic policies, as well as inflexible fiscal policies, which in most Member States just focused on deficit reduction. There was concern about the EU's lagging productivity growth and the widening gap compared to the U.S. Noting that services represent 70% of the EU's total output, Monti underlined the necessity of establishing a single market for services. There was near-unanimous criticism of the European Central Bank's (ECB) tight monetary policy, with many asserting the ECB missed opportunities to spur growth in 2001-2004 by not lowering interest rates.

EU Enlargement - Unlimited Enlargement is No Option
--- ------

¶5. There was general agreement that the May 2004 EU enlargement had been positive and that without it, the EU would be facing additional economic challenges. Nevertheless, most analysts cautioned that the EU needed sufficient time to deal with this enlargement, economically and politically, before launching a new enlargement round. The Dutch and French referenda on the constitution highlighted that Member States must address enlargement within a domestic policy context. Ewald Nowotny, economist and Vice-Rector of the University of Vienna, opined that the EU would have to define its borders clearly, as unlimited enlargement is not an option. With the accession of Romania and Bulgaria, the EU will reach its provisional limit. Nowotny argued that

Croatia and other Balkan states are potential candidates, but requisite political conditions in the region are lacking. Nowotny added that the EU should offer "large and economically underdeveloped countries," such as Ukraine, Belarus and Turkey, a privileged partnership. However, Nowotny warned that full membership for these countries in the near-term would weaken the EU and ultimately "destroy" it.

EU Labor Market Issues - More Flexibility Needed
-- ---

¶6. Several economists praised the "Scandinavian Model" as the best approach for Member States to achieve higher growth rates, budgetary responsibility, more R&D spending, while maintaining the welfare state. Many highlighted successful reforms of the labor markets in Scandinavia, which promoted "flexicurity" (flexibility for firms, security for employees). However, several labor representatives criticized "flexicurity" as one of many subtle methods to restrict labor rights and benefits. Christoph Leitl, President of the Austrian Chamber of Commerce called for more development of an EU social model, which would spur economic growth and fight unemployment. Globalization, according to Leitl, required global institutions and social partnerships to ensure minimum labor standards.

Germany's Economic Situation - Bleak Outlook

¶7. There was much discussion and reflection about Germany's current economic malaise. Most agreed that the cost of German reunification had severely hampered growth. Several economists criticized the German Government for not having raised taxes to finance reunification, but most agreed the decision had been political. There was agreement that other factors, e.g., unbridled growth in social spending, had aggravated Germany's current economic problems. Michael Huether, Director of the German Economic Institute, cautioned that reforms will be difficult, because Germany is not a true market economy, rather a social state model. Restoring confidence and optimism would be key for Germany's recovery, since recent policies have destroyed trust in the government's economic policies and institutions.

¶8. Several speakers warned that eastern Germany could develop into a "Mezzogiorno" of the north, with per capita GDP in western Germany roughly equivalent to GDP in the U.K., Belgium or Austria. However per capita GDP in eastern Germany lagged behind that of Portugal and Malta. Most speakers warned that Germany's anemic growth

would continue to hold back growth throughout the EU, perhaps even pushing many countries into recession. There was consensus that Germany will remain a special case for some years - reunification costs and the structural budget deficit will not fade away any time soon.

BROWN